Handy & Harman Annual Report 1977

On the cover

Plastic-and-metal components produced at the Winesburg, Ohio, plant of Merit Plastics, Inc. These components are used for vacuum control harnesses, and automotive trunk releases and air conditioners. Merit, acquired in 1977, is the largest in a series of acquisitions made by Handy & Harman over the past twelve years. The story and philosophy of the Company's acquisition program is discussed and illustrated on Pages 3-13.

Annual Meeting

The Annual Meeting of the Shareholders of Handy & Harman will be held on May 9, 1978, at the Morgan Guaranty Trust Company of New York, 15 Broad Street (30th Floor), New York City, at 11 a.m.

Contents

"We've had 111 good business years. The year 1977 was our best."

TO OUR SHAREHOLDERS:

New earnings record set

Handy & Harman's operating earnings reached a new high in 1977.

The fact is, we've had 111 good business years, and the year 1977 was our best. It is indeed gratifying to report this solid evidence of the continuing growth and progress of your Company.

Sales and service revenues were $381,730,000, up 10% from $347,786,000 in 1976. Net income was $11,148,000, compared with $10,551,000 in 1976, an increase of 6%. Earnings per share were $3.29 compared with $2.98 in 1976, up 10%; the per share increase also reflects the lesser number of shares outstanding in 1977. It should be pointed out that in neither year were there any profits resulting from the liquidation of precious metals inventories carried on the LIFO (last in-first out) method of accounting.

The benefits of our product diversification program continued to be evident in 1977. Not all of our businesses enjoyed high levels of activity last year, but in the aggregate, the broadness of our product lines strengthened our marketing position.

Three acquisitions made

Continuing our efforts to assure the future growth of Handy & Harman, we acquired three businesses during 1977. Merit Plastics, Inc. brings to us a well established and highly regarded capability in the manufacture of innovative plastic and plastic-encased products for the automotive and appliance industries. Merit will make a substantial contribution to our earnings.

Two other, much smaller companies were acquired in mid-year. Micro-Fab, Inc., has become the Micro Tube Fabricators Division of Handy & Harman Tube Company and thus has added precision components capability to our existing small-diameter ferrous and

nickel alloy tubing lines. EMRA, Inc. has been merged with our subsidiary, Custom Stamping & Mfg., Inc., under the name Customet, Inc. This acquisition also strengthens this subsidiary company.

Dividends increased

The Board of Directors, on October 27, voted to increase the quarterly dividend rate by 25%, from 20¢ per share to 25¢. The first quarterly payment at the higher rate was made December 1. This is the seventh time in the past 12 years that Handy & Harman has increased the cash dividend. In addition, the Company has paid three special cash dividends during that period.

This dividend record and the 3-for-2 stock split effected November 15, 1976, viewed together, indicate both the Company's confidence in its future and a continuing concern for its shareholders' interest.

Priority given to energy conservation

Concern is properly expressed for the potential impact of energy shortages on our various manufacturing plants. We are now in the sixth year of a total energy management program, which we are pleased to say has become more effective each year. The program has a dual purpose—to assure, as far as possible, continuing available sources of energy for our operations and to reduce costs by conserving energy use.

We can report successful achievement of both objectives. All our major plants are now, or soon will be, equipped with alternate fuel sources that greatly reduce the risk of curtailment in the event of local shortages. And again, as in 1976, effective management of energy use has offset some part of the escalating unit costs of fuels and electric power.

We continue to give priority attention to this important matter.

Director retires

Paul L. Peyton, who was first elected to the Board of Directors in 1966, has expressed his desire to withdraw his name as nominee for re-election this year. Over the past 12 years, Mr. Peyton's wise counsel has been of immeasurable value to our Company. In partial recognition of the many contributions he has made, the Board of Directors has named Mr. Peyton Director Emeritus.

Outlook is favorable

Our projections for 1978 show further gains over the record earnings performance last year. At the same time, we are aware that many observers foresee a slowing of economic growth in this country. Also, uncertainty exists about the future course our Federal government may take in its efforts to manage the economy. However, barring any now unforeseen events in the general economy, we look forward with confidence to a continuation of our growth and a realization of our 1978 projection.

M. W. Townsend

M. W. TOWNSEND
Chairman of the Board
and President

March 30, 1978

In 1966, we launched an acquisition program that has basically changed the nature of our Company.

On the following pages, we tell the story of that program.

The starting point

In 1966, Handy & Harman launched an acquisition program which has, over a 12-year period, basically changed the nature of our Company.

To understand the full scope of this change, it is necessary to look back to our position in the mid-1960's, when the program was first conceived.

At that time we were approaching our hundredth birthday (we were founded in 1867). We were leaders in the precious metals field—specifically, in the manufacturing of silver and gold alloys in mill forms, and in the refining of precious metals from industrial scrap.

We had only two subsidiaries. One was outside the U.S. It was Handy & Harman of Canada, Ltd., whose operations were a scaled-down version of those of the parent company. The other was the Posen & Kline Tube Co., of Norristown, Pa., which we had acquired in 1958. This company (whose name was later changed to Handy & Harman Tube Co., Inc.) was a manufacturer of small-diameter stainless and carbon steel precision tubing.

This, briefly, is where we stood in the mid-1960's. What were the factors that encouraged us to undertake an acquisition program?

The motivations

First of all, we wanted simply to continue to grow as a business. In view of our leading position in the silver and gold markets, and the relative maturity of those markets, we felt that to confine ourselves to the precious metals business would be to limit the rate of our growth prospects. Further penetration of the markets for our existing products was of dubious practicality, both from an economic and even a legal standpoint.

In addition, although we used gold and silver as industrial metals, both were subject to political and monetary overtones which influenced their price levels and, in turn, the market demand for products made of them.

Still another motivation for our acquisition program was our desire to achieve a more stable and controllable growth pattern in our Company's earnings. This, we reasoned, could best be accomplished by acquiring a spectrum of companies, with diversified product lines and diversified markets. This approach would minimize our dependence on precious metals. It would tend to give us a better marketing balance, so that a downturn in one market segment could be offset by an increase in another . . . so that new products would emerge to replace those lost by attrition . . . and so that we'd be in a position to take advantage of special growth opportunities that were bound to emerge from time to time in broader markets.

Finally, we were in a good financial position to undertake an acquisition program, since we possessed large inventories of silver and gold, which gave us a borrowing base greater than we needed to support our precious metals operations. Our surplus borrowing capability made it practical for us to acquire new companies without straining the financial resources of our own Company.

Having decided upon a policy of diversification through acquisition, our next step was to develop a program that would take into account our individual character as a company—with all our capabilities and all our limitations.

The guidelines

Our general philosophy of acquisition was to concentrate on companies that worked mainly in non-precious metals. We emphasized *non-precious* for reasons of diversification, and *metals* because those were the materials we were most familiar with. And within the non-precious metals area, we planned to look for companies making "specialty" rather than "commodity" products. We ourselves, working in precious metals, had never been tonnage producers. Our emphasis had always been on adding a relatively high *value-per-pound* to metals, through technical skills and advanced fabricating processes. So, naturally, we looked for companies with the same character.

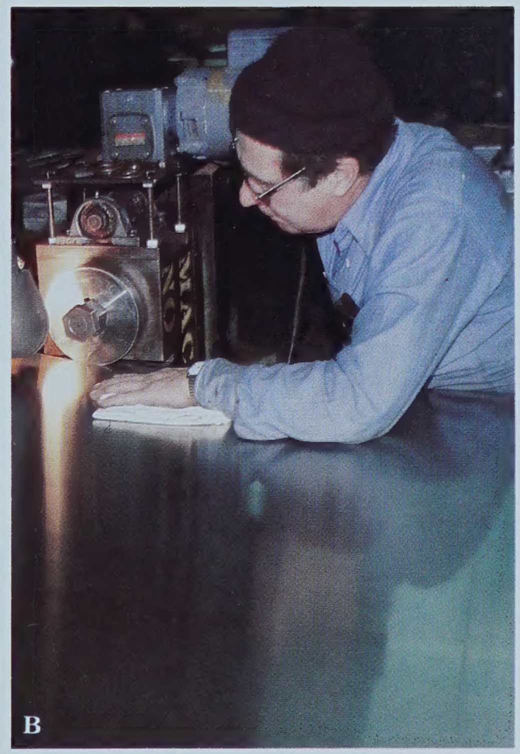
In considering a company for acquisition, we set an important (and perhaps somewhat unusual) criterion. We wanted that company to share our philosophy of

doing business. During our one hundred years of business life, we had established standards of integrity that had won the confidence and respect of our customers. And our concern for fair dealing was not limited to the marketplace; it applied as well to the people who worked for us, on whose efforts our success largely depended. From the outset, we aimed to acquire companies whose attitude towards their customers, and their own people, matched our own.

We had to be realistic about one very real limitation. We had never in our long history manufactured consumer products, and had no knowledge of consumer marketing. So we decided our most prudent course would be to seek out companies making industrial products—products used by other businesses as components of *their* products. We felt we would be most comfortable with companies whose experience, like ours, had been in industrial markets.

Among industrial companies working in metals, we proposed to favor those companies whose products met basic business needs. In other words, we were willing to pass up high technology opportunities (which usually required high research investment) in favor of more stable products—products for which there was good probability of continued market demand.

And finally, we sought to acquire companies that would share, at least to some degree, common manufacturing methods. We ourselves had long experience in such basic metal fabricating operations as alloying, rolling, annealing, drawing, extruding, cladding, stamping, etc. We visualized that the acquisition of companies performing more or less the same kinds of operations would be a



A. Final inspection of fine stainless steel wire, at Maryland Specialty Wire's new manufacturing plant.

B. Slitting a stainless steel conveyor belt at Metalsmiths' Totowa, N.J., plant. Belts are made up to 120 inches wide, and to virtually any length required.

C. Flow testing and inspection of capillary tubing at Handy & Harman Tube. Tubing is used for gas chromatography and instrumentation applications.

very desirable state of affairs. It would make possible a fruitful, and profitable, exchange of research talent and engineering capabilities.

The goal

The goal of our acquisition program was to build our non-precious metals operations to the point where they would contribute 50% of our Company's annual operating earnings. (The remaining 50%, of course, would come from our historical base in silver and gold).

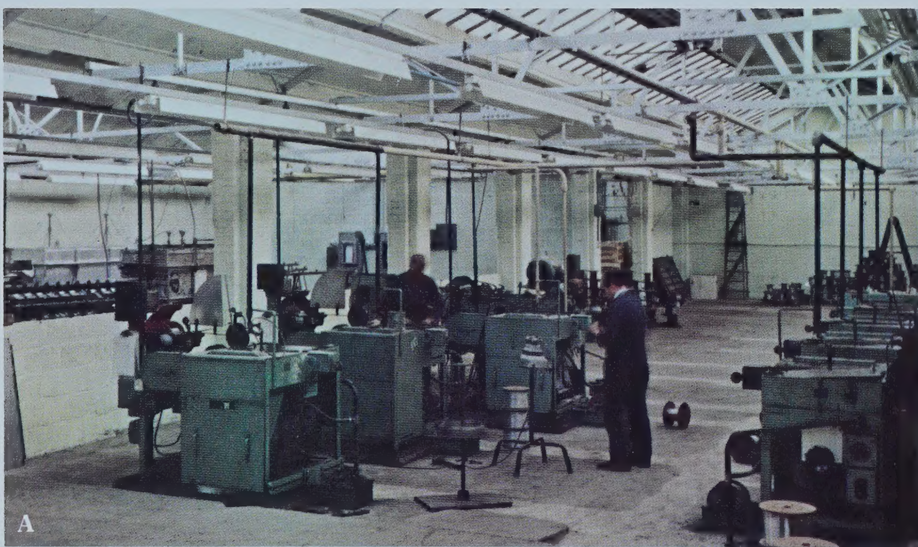
This was a simple goal, but a very challenging one. What made it challenging was that we had every intention of increasing the growth of our precious metals business. And to the extent that we succeeded, the goal of 50% of profits from non-precious metals would be that much more difficult to achieve. It would resemble an arrow aimed at a moving target.

The mid 1960's—the beginning . . .

Our acquisition program was launched in the mid-1960's. In 1966, we acquired Orange Roller Bearing Co., of Orange, N.J., with its Metalsmiths Division. Orange Roller Bearing manufactured steel roller bearings and bushings. The Metalsmiths Division specialized in making stainless steel products, notably long, highly polished conveyor belts. In addition, on a joint 50-50 basis with Degussa, West Germany's leading precious metals fabricator, we formed Electric Thermometers, Inc., based in Bridgeport, Conn., as a manufacturer of thermocouple platinum wire.

In 1967, we acquired four wholly-owned subsidiaries and participated in two new joint ventures.

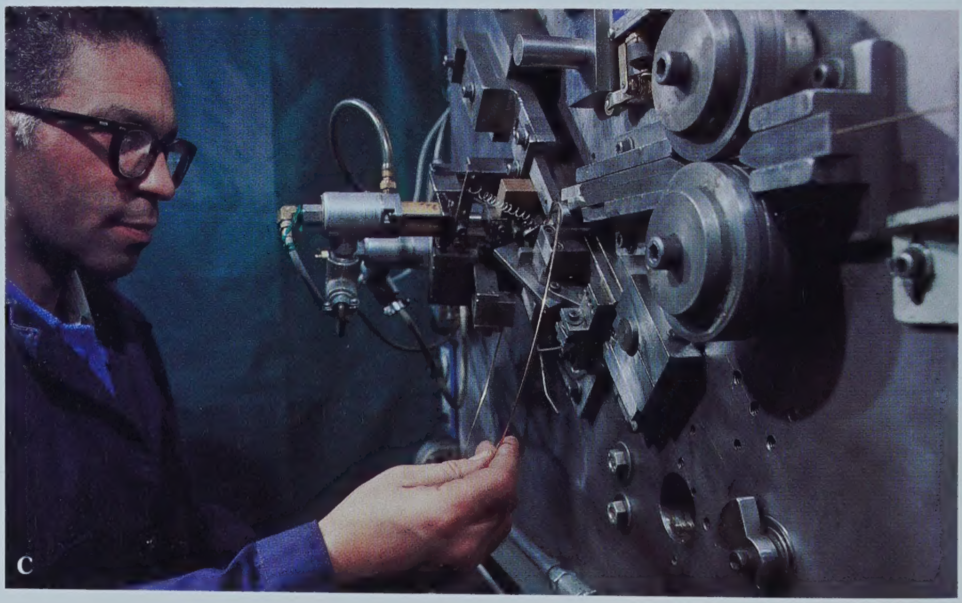
The largest of these companies



A. High-speed machines for drawing fine wire—at Rigby-Maryland's manufacturing plant in Yorkshire, England.

B. Operator at Pennsylvania Wire Rope extrudes end terminals—final operation in the manufacture of automotive emergency brake cables.

C. At Lucas-Milhaupt, operator forms 12" diameter brazing rings on specially-designed machine.



was Maryland Specialty Wire, Inc., of Cockeysville, Md., a manufacturer of small-diameter specialty wire. This acquisition included Maryland's subsidiary, Pennsylvania Wire Rope Corp. of Williamsport, Pa., a producer of stainless and high carbon steel cable. We also acquired Maryland's 50% interest in two other companies. One of them, Hi-Alloys, Inc., of Cockeysville, Md., produced high-speed tool steels. The other, Rigby-Maryland, Ltd., located in Yorkshire, England, specialized in drawing fine-gauge stainless steel wire.

In the same year, 1967, we acquired Lucas-Milhaupt, Inc., of Cudahy, Wisc., a manufacturer of silver brazing preforms and non-precious metal solders. And we also acquired Ipsenlab of Canada, Ltd., a metals heat-treating company.

The late 1960's—maintaining the pace . . .

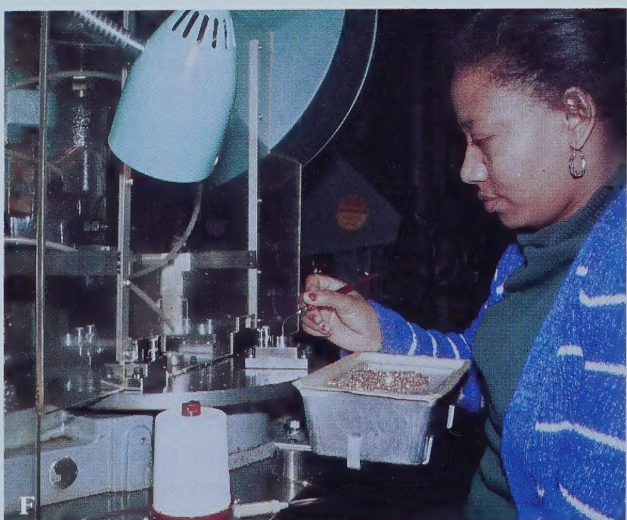
The program maintained its momentum towards the close of the 1960's.

In 1968, we added four new companies. In May we completed the acquisition of Ladek Metal Products, Inc., of Oak Creek, Wisc., a fabricator of intricate wire and metal ribbon forms (in which Lucas-Milhaupt had already held a substantial interest.) In September we purchased the remaining 50% interest in Hi-Alloys, Inc., to become its sole owner. And in November we acquired Consolidated Tube Fabricating Corp. of Waterbury, Conn., a manufacturer of small-diameter tubing and eyelet parts.

The fourth company was the Attleboro Refining Co., Inc., a refiner of precious metal scrap, located in Attleboro, Mass.

In 1969, we added two more companies—American Clad Metals,

D. Rotary bending of aluminum tube assembly at Consolidated Tube. Assemblies are used in automobile air conditioning units.



E. Precious metal refining at Handy & Harman of Canada. Silver reclaimed from X-ray solutions is cast as 600-ounce bars.

F. Operator at Bigelow Components uses a vacuum pick to insert tiny motor control component into die of stamping press.

Inc., of Central Falls, R.I., a manufacturer of thin clad metal strip, and Bigelow Components Corp., of Newark, N.J., a producer of miniaturized electronics components.

Acquisitions in the 1970's

Early in 1970 we acquired Greenback Industries, Inc. of Greenback, Tenn., a producer of nonferrous metal powders (particularly copper). Later in the same year Rathbone Corp. of Palmer, Mass., a manufacturer of cold-drawn profile shapes, joined our Company.

In 1971, we acquired Wire-Form, Inc., of Milldale, Conn., a fabricator of stampings, sleeves, wire and ribbon forms.

In 1972, we moved into our second overseas venture. We participated in the establishment of a company in Tokyo, Japan, in which we hold a 45% interest. This company, Japan Handy Harman, Ltd., was formed to produce silver alloy products for industrial use in that country.

During 1973, we made two more acquisitions—Automated Process Systems, Inc., of Bensenville, Ill., a designer and builder of conveyor systems for processing industries, and Continental Industries, Inc., of Tulsa, Okla., a producer of steel fittings and polyethylene systems for utilities.

In the mid-1970's we made several important additions to our family. In 1974, we acquired Custom Stamping & Mfg., Inc., of Upper Saddle River, N.J., a leading producer of sub-miniature electronic components. We also purchased the remaining 50% interest in Rigby-Maryland. New Industrial Techniques, Inc., of Coral Springs, Fla., a fabricator of complex powder metal parts and assemblies, joined our Company in 1975.

And in 1976 we acquired U.S. Auto Radiator Manufacturing Corp. of Highland Park, Mich., a leading manufacturer of heaters, heater cores and radiator cores for the automotive replacement market.

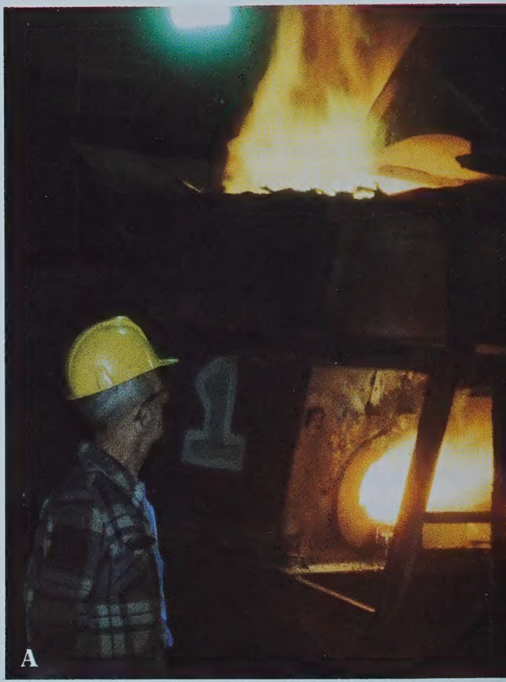
1977—and our largest acquisition to date

In July of 1977 we made what was by far our largest acquisition to date—that of Merit Plastics, Inc., headquartered in East Canton, Ohio.

Merit is an important fabricator of plastic and plastic-encased wire products, largely for the automotive and appliance industries. (Typical Merit product lines are vacuum and air control harnesses, speedometer cables and lever controls.) The company employs close to 1,000 people in its six plants in Ohio and Michigan. Its sales in 1977 were over $21 million.

Merit Plastics is an especially significant acquisition for us, not only because of its size, but because it highlights the increasing importance of our role as a supplier of complete original equipment products to industry. Before we launched our acquisition program, we were almost completely a supplier of precious metals in wire, strip, sheet, bar, grain and powder forms. But this picture changed as our program developed. Almost all our new subsidiaries make fabricated non-precious metal products. And some, like Merit (a supplier to the Detroit automotive industry for twenty years) have pioneered the development of the product lines they manufacture.

In addition to the acquisition of Merit Plastics, we made two


A


B

A. At Greenback Industries, copper scrap is melted—first step in the production of high-purity copper powder.

B. At Rathbone, operator polishes carbide die section with diamond compound. Dies are used to produce precision profile shapes for cameras, computers, typewriters, etc.

C. Precision slitting operation at American Clad Metals. Composite strip (precious metal stripes bonded to base metal) will be fabricated into electrical contact blades.

D. At Continental Industries, operator inspects gauges used to check accuracy of finished threads in steel pipe fittings.

E. Intricate metal parts fabricated on Wire-Form's four-slide machines. Production rates reach 12,000 parts per hour.

F. Melting and casting a silver ingot in an induction furnace at Japan Handy Harman. Ingot will be extruded, then drawn into wire, rod or rings.

additional (but much smaller) acquisitions in 1977. One was Micro-Fab, Inc., of Middlesex, N.J., a fabricator of precision small-diameter tubing components. (This company operates as a division of Handy & Harman Tube Co.) The second was EMRA, Inc., of Westwood, N.J., which has been merged with our subsidiary, Custom Stamping & Mfg., under the new name of Customet, Inc.

Deviations from the course

By the end of 1977, we had nineteen fully-owned subsidiaries and one jointly-owned in our Company fold.

Obviously our acquisition program had made considerable progress in twelve short years. But it wasn't always progress in a straight line. There were some deviations from the course.

Not all the companies we acquired are solely in non-precious metals. Several of our subsidiaries work at least partly with precious metals. And others at least partly with plastics.

Not every subsidiary has remained a subsidiary. In some cases, the reasons were technical and administrative. Ladek Metal Products, whose technology was linked to the requirements of Lucas-Milhaupt, was merged into Lucas for improved efficiency. For similar reasons, we merged Hi-Alloys into Maryland Specialty Wire. And the operations of the Attleboro Refining Co. were later absorbed by the brand new electrolytic refinery we built in Attleboro. (This refinery now operates as a division, rather than a subsidiary, of our Company.)

Some subsidiaries are no longer subsidiaries because we couldn't make them pay. Despite our most strenuous efforts, Electric Thermometers and Ipsenlab remained unprofitable, and we had to dispose of them. Fortunately, considering the scope of the overall program,

A

B

A. Stainless steel belt conveyor for chemical processing, designed and built at Metalsmiths' Bensenville, Ill., plant (formerly Automated Process Systems).

B. At New Industrial Techniques, inspector checks a business machine component made of powder metal. Comparator magnifies the tiny part 50 times.

the ultimate cost to us was minor. Orange Roller Bearing, too, was sold—but we retained its Metalsmiths Division, which has developed into a profitable subsidiary.

Results of the program

Let's look at some of the results of the first twelve years of our acquisition program.

In 1966, we were a corporation with two subsidiaries. Today we are a family of twenty-one companies, including our Canadian subsidiary and our overseas operations in England and Japan. And sixteen of these companies work exclusively with non-precious metals and materials.

A prime aim of the program to diversify into the non-precious metals segment was to broaden and vary the products which we make and sell, creating opportunities for us to compensate for changes in industrial demand. This, in large measure, has come to pass. For example, there were years in which depressed business activity resulted in reductions of stainless steel wire and copper powder sales. This decrease was offset, however, by heightened demand for our karat gold and sterling silver products. And when increased gold and silver prices temporarily discouraged sales of fabricated products, we were able to maintain our overall growth with new products such as stainless steel antenna rods for CB radios, magnetic ferrite powders, and expansion of our conveyor systems capabilities. (Interestingly, the price increases which acted as a depressant on precious metal sales acted as a stimulant to our precious metal refining operations, since scrap whose value had been marginal now became profitable to refine.)

The overall picture was one of growth and increased balance in our sales.

D

C. Final inspection of a high-speed, close-tolerance die at Customet. After checking, die is set up for production runs in stamping press.

D. At U.S. Auto Radiator, operator solders an auto heater, one of company's many automotive aftermarket product lines.


Wire-braiding machine at Merit Plastics' East Canton, Ohio, plant. The braided wire, inserted into plastic conduit and end-capped with metal fittings, will be used for lever controls and other remote control devices in Merit's diverse product lines.

Two plus two equals five . . .

Back in 1966 we envisaged the creation of synergy among the companies we planned to acquire. We hoped to see a situation in which two and two would add up to five, so to speak. This, too, has happened.

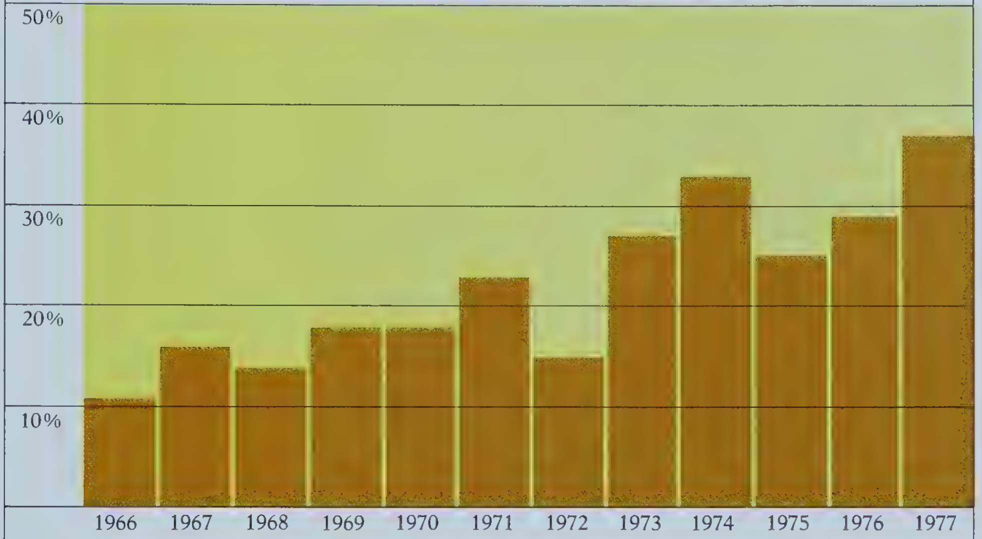
With our common emphasis on specialized, high-value-added products, we've been able to pool management talent, to exchange technical expertise, and to create new market opportunities. A good example is the synergistic relationship that existed from the outset between Automated Process Systems and our Metalsmiths Division, whose combined capabilities enabled us to offer a complete conveyor systems package to processing industries—a package combining APS conveyors and Metalsmiths stainless steel belts. (In this case, the end result of the relationship has been the actual merging of the two companies.)

The broadest synergy of all has taken place between our parent company, on one hand, and all our subsidiaries on the other.

This relationship has been a two-way street. We didn't simply acquire companies, and then sit back in the hope that they would grow. We participated actively in that growth. We invested many millions of dollars to help our subsidiaries advance on every front. Plant additions to Maryland Specialty Wire, to Lucas-Milhaupt, to Handy & Harman Tube and Rathbone Corp. . . . complete new plant buildings for Penn Wire Rope, for Metalsmiths and for Greenback . . . investments in new equipment, new processes, intensified research and personnel . . . the list is endless. As early as 1968, we made a larger

Progress towards the 50-50 goal

Non-precious metals operations as percent of total profit contribution*



*In the years prior to 1971, the Company acquired most of its subsidiaries in pooling of interests transactions. The above figures have not been restated for years prior to the acquisitions. Furthermore, as discussed on pages 14 and 15, the profit contributions are before allocation of interest and general corporate expenses for all years, and before profits arising from liquidations of LIFO inventory (precious metal segment only) in the following years: 1968, 1969, 1970, 1974 and 1975.

capital investment in our subsidiaries than in our parent company.

It's not hard to visualize the meaning of this kind of support for the companies that joined us. Consider the situation of a relatively small company, perhaps only recently founded, operating in a large, competitive marketplace. Upon becoming a Handy & Harman subsidiary, this company is suddenly a member of a substantial group of companies interrelated by their specialty metals activity. And the group is headed by a century-old "Fortune 500" manufacturing corporation, a leader in its field, publicly-owned and listed on the New York Stock Exchange.

Not only does the new member of the family enjoy the association with the other "family members" . . . it also shares the benefit of the long-established reputation of the parent company. And, of no small importance—it now has access to a source of financial support for expansion of its plant, product lines and marketing efforts.

But, as we've noted, the relationship is a two-way street. If the subsidiaries have benefited from the support of the parent company, they have in turn made invaluable contributions to the overall growth of Handy & Harman over the past twelve years . . .

Again . . . the moving target

We started our acquisition program in 1966 with the long-range objective of deriving 50% of overall company earnings from our non-precious metals operations. And we've described this as a moving target, since we aimed to increase our precious metals business at the same time.

What progress have we made towards this goal?

First, let's see how much the target has moved. This can be summarized very simply. In 1965, before we began our acquisition program, total company sales were $130 million. In 1977, sales were $382 million, an increase of 194%. Our net income during the same period grew from $1.8 million to $11.1 million, an increase of 517%.

At the same time, we're homing in on our moving target. As shown by the chart on this page, the profit contribution of our non-precious metals operations increased to 37% of total company earnings in 1977.

Considering the overall growth of our Company since 1966, and the contribution made to that growth by our subsidiaries, we believe that our acquisition program has been a very successful one. We see no reason to abandon or change it.

Our long-range goal remains the same as it was in 1966—to continue to diversify our product lines and capabilities by acquiring specialty manufacturing companies, principally in non-precious metals. In this way, we will continue to expand our business and add diversity and balance to our markets.

And our specific objective remains the same as well—to pursue that moving target until our non-precious metals activity yields a full 50% of overall company earnings. At the rate we're moving, we expect to see this objective achieved in the current year of 1978.

THE COMPANY'S BUSINESS

Handy & Harman is engaged primarily in the manufacture of a variety of products containing silver, gold and other precious and non-precious metals and a combination thereof and the sale of such products to industrial users in a wide range of industries, including silverware and jewelry, electrical and electronic, automotive, appliance and aircraft. The Company also provides metal refining services for the secondary recovery of precious and non-precious metals from waste material.

A high percentage of the selling price for Handy & Harman's precious metals products is the cost of the precious metals contained. Therefore, precious metal price fluctuations are reflected in both sales and cost of sales. Service revenues, which represent charges to customers for processing refining lots, do not include the value of precious metals. In addition, certain customers choose to purchase their own precious metals and furnish bullion to Handy & Harman for fabrication. When the metals are returned to the customer in fabricated form, the customer pays only a fabrication charge. Therefore, the precious metal value of this consignment business is not included in sales or cost of sales.

The operations of Handy & Harman and its subsidiaries are divided into two industry segments: manufacturing and refining of precious metal products; and manufacturing of non-precious metal products. The following table presents information about these two segments prepared in accordance with Statement of Financial Accounting Standards No. 14. This information differs from that previously provided in that interest expense and general corporate expenses are not allocated to the two segments. Additional segment information regarding the years 1977 and 1976 can be found in Note 6 of the Notes to Consolidated Financial Statements on page 25.

(Thousands of Dollars)	1977	1976	1975	1974	1973
Sales of Products and Service Revenues:					
Precious Metals	$275,682	$273,171	$282,435	$330,849	$286,492
Non-Precious Metals	106,048	74,615	56,009	60,159	46,678
	381,730	347,786	338,444	391,008	333,170
Profit contribution before unallocated expenses:					
Precious Metals	18,411	19,217	26,978*	26,899*	13,533
Non-Precious Metals	10,635	8,032	5,575	7,770	5,001
	29,046	27,249	32,553	34,669	18,534
General corporate expenses	(868)	(773)	(754)	(808)	(928)
Interest expense	(7,058)	(5,669)	(6,128)	(7,831)	(6,153)
Income before income tax	$ 21,120	$ 20,807	$ 25,671*	$ 26,030*	$ 11,453

*Included in the profit contributions, as shown above, are profits before taxes of $10,685,000 in 1975 and $11,170,000 in 1974 attributable to reductions in inventory of precious metals valued under the LIFO method. Exclusion of such LIFO profits from the precious metal segment would significantly alter the contributions of the two segments. Therefore, your attention is directed to the table below and the chart on page 13 which depicts the contributions of the non-precious metals segment for the years 1966 through 1977 as a percentage of the combined segment contributions (before LIFO).

(Thousands of Dollars)	1977	1976	1975	1974	1973
Profit contributions before unallocated expenses and LIFO profits:					
Precious Metals	$18,411	$19,217	$16,293	$15,729	$13,533
	63%	71%	75%	67%	73%
Non-Precious Metals	$10,635	$ 8,032	$ 5,575	$ 7,770	$ 5,001
	37%	29%	25%	33%	27%

The following table segregates assets identifiable to the two reportable segments. Corporate assets include cash and investments.

(Thousands of Dollars)	1977	1976	1975	1974	1973
Assets:					
Precious Metals	$107,854	$110,573	$100,903	$112,294	$ 86,885
Non-Precious Metals	69,810	52,719	35,239	34,965	28,446
Corporate	9,495	10,523	10,389	9,927	12,209
	$187,159	$173,815	$146,531	$157,186	$127,540

The comparison of Handy & Harman's precious metals segment sales dollars from year to year is not meaningful due to two factors: (1) changing market values of the silver, gold and other precious metals which comprise a substantial portion of the sales price; and (2) the changing mix between market (i.e., sales which include precious metal cost) and consignment sales. The table below, therefore, shows all classes of similar precious metals products (measured by gross weight of shipments as a percentage of total segment shipments) which contributed 10% or more to total sales and revenues during either 1977 or 1976.

	1977	1976	1975	1974	1973
Rolled Products	46%	46%	52%	54%	57%
Wire Products	37%	34%	32%	36%	33%
Grain Products	7%	11%	11%	6%	6%

STOCK TRADING AND DIVIDENDS

Handy & Harman Common Stock is traded on the New York Stock Exchange. The table below sets forth, for the quarterly periods indicated, the reported high and low sales prices for the Common Stock on the New York Stock Exchange and the dividends paid on the Common Stock during such periods.

	Common Stock Sales Prices		Dividends Paid on Common Stock
	High	Low	Per Share
1976			
January 1-March 31	20⅜	14⅜	$.167
April 1-June 30	20⅛	18⅛	.167
July 1-September 30	18⅞	16⅝	.167
October 1-December 31	18⅞	18¾	.20
1977			
January 1-March 31	23⅛	19⅝	.20
April 1-June 30	22⅞	20½	.20
July 1-September 30	23⅞	20½	.20
October 1-December 31	23⅞	21½	.25

FIVE YEAR SUMMARY OF OPERATIONS

	Dollars in Thousands Except per Share Figures				
	1977	1976	1975	1974	1973
Sales of products and service revenues	**$381,730**	$347,786	$338,444	$391,008	$333,170
Cost of products and services	**330,892**	301,109	288,147	340,326	300,138
Interest expense	**7,058**	5,669	6,128	7,831	6,153
Income before income taxes and extraordinary item	**21,120**	20,807	25,671	26,030	11,453
Provision for taxes on income	**9,972**	10,256	12,965	13,783	6,306
Income before extraordinary item	**11,148**	10,551	12,706	12,247	5,147
Extraordinary credit	—	—	—	—	244
Net income	**11,148**	10,551	12,706*	12,247*	5,391
Dividends paid	**2,879**	2,487	2,958**	1,802	1,674
Per share of common stock: ***					
Income before extraordinary item	**3.29**	2.98	3.59	3.53	1.47
Extraordinary credit	—	—	—	—	.08
Net income	**3.29**	2.98	3.59*	3.53*	1.55
Dividends paid	**.85**	.70	.83**	.52	.48
Working capital	**62,740**	59,332	51,847	45,054	28,716
Property, plant and equipment (net)	**47,317**	37,396	31,669	26,551	24,196
Total assets	**187,159**	173,815	146,531	157,186	127,540
Shareholders' equity	**69,247**	61,018	56,381	45,400	35,050
Average shares outstanding (nearest thousand)	**3,386**	3,538	3,543	3,465	3,487
Number of shareholders	**2,922**	2,913	2,976	2,559	2,600
Number of employees	**4,151**	3,085	2,658	2,750	2,625

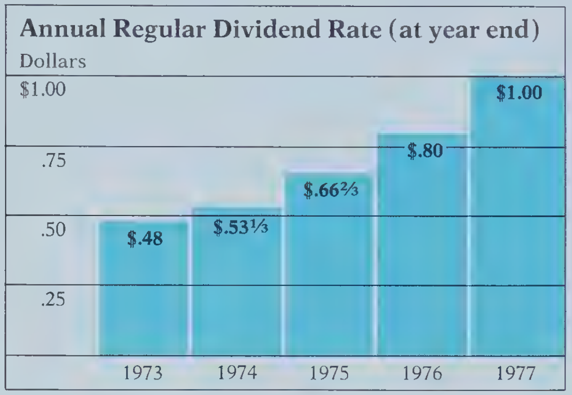
*Reduction of precious metal inventories valued under the LIFO method resulted in increases in net income in 1975 and 1974 of approximately $5,200,000 and $5,362,000, respectively, equal to $1.47 and $1.55 per share of common stock. Additionally, 1974 net income was reduced by approximately $1,841,000, equal to $.54 per share, as a result of increasing silver inventories at a cost in excess of the LIFO carrying value.

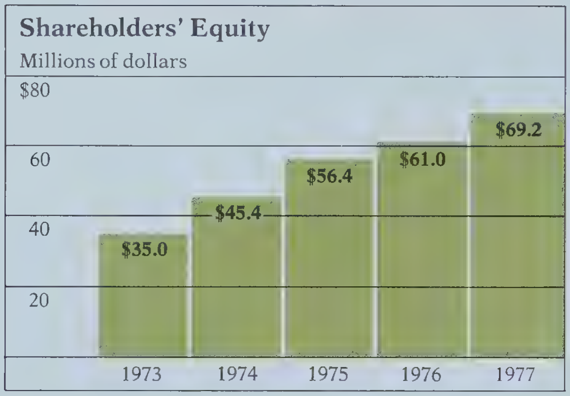
**Includes special dividend of $947,000, equal to $.27 per share.

***Per share amounts are after giving effect to the 3-for-2 stock split on November 15, 1976.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of recent operating results and financial position of the Company are presented throughout this Report. The Five Year Summary of Operations (left) and the Company's Business (page 14) provide additional perspective.





Comparison of 1977 versus 1976

Consolidated sales of products and service revenues increased 10% in 1977 over 1976. This increase is attributable substantially to the non-precious metals segment which increased $31,433,000 (42%) resulting from: sales by subsidiary companies acquired during 1977 and 1976, higher unit sales volume of most major products, and generally increased prices. Precious metals segment sales were approximately the same in 1977 and 1976. A comparison of average gold and silver market values, the principal raw materials of the segment, indicates that silver prices increased by 5.8% and gold prices by 18.4%. These increases in precious metals prices offset reduced unit sales volume during the period.

The combined profit contribution (operating income before deducting interest and corporate expenses) increased by $1,797,000 (7%). The non-precious metals segment contribution increased by $2,603,000 (32%) due primarily to: the increase in sales volume as explained above, generally increased volume for existing plants which reduces fixed charges as a percentage of sales and the resumption of profitable operations at a plant which was struck during 1976. The contribution of the precious metals segment decreased by $806,000 (4%) resulting from the decreased volume of sales of most precious metals products.

Maintenance and repairs increased by $980,000 (19%) generally reflecting the higher volume of business in the non-precious metals segment. Variable costs and expenses, other than the metal content of inventory, which are related to both cost of sales and selling, general and administrative expenses (SG&A), after allowing for subsidiaries acquired in 1976 and 1977, increased due to inflationary factors but generally in relationship to the increase in sales volume. There were no profits resulting from liquidations of precious metals carried on the LIFO method in either 1977 or 1976.

Interest expense increased by $1,389,000 (25%) reflecting both increased average borrowings throughout the year and an increase in the effective interest rate relating to increased long-term liabilities. The latter reflects the Company's continuing policy of maintaining an appropriate balance between long-term and short-term obligations. The effective income tax rate of 47.2% is 2.1 percentage points lower than the effective rate in 1976 resulting in a reduction in income taxes of $284,000 (3%). Note 3 of the notes to consolidated financial statements analyzes the difference between the effective rate and the U.S. Federal statutory rate.

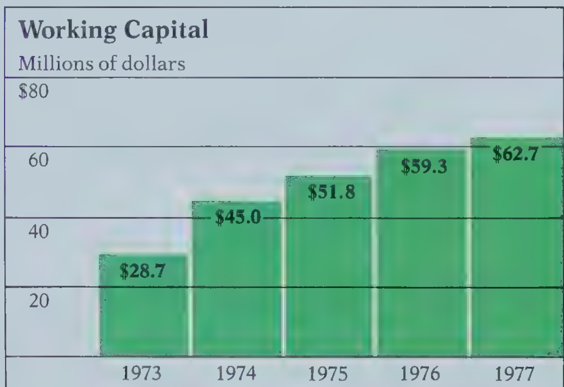
Income before income taxes in the fourth quarter of 1977 was $465,000 (9%) less than the comparable quarter of 1976 reflecting increased interest rates and the reduction in volume in the precious metals segment. The effective income tax rate in the fourth quarter was 42%; this lower rate reflects adjustment resulting from both increased investment tax credit as

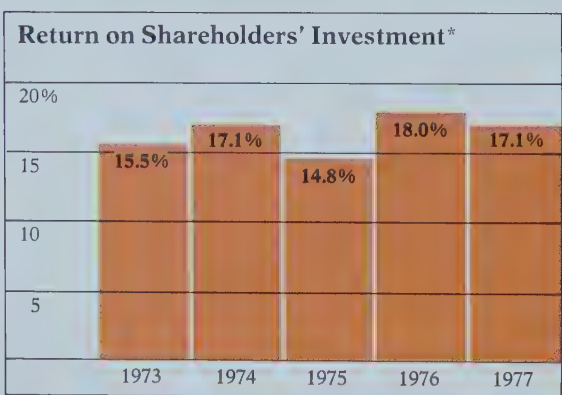
certain projects were completed earlier than expected and the effect of items taxed at the capital gains rate.

Comparison of 1976 versus 1975

Consolidated sales of products and service revenues increased 3% in 1976 as compared with 1975. Non-precious metals segment sales increased $18,606,000 (33%); while precious metals segment sales decreased $9,264,000 (3%). The increase of the non-precious metals segment results from increased volume and prices, and the effect of subsidiaries acquired in 1976 and 1975. Precious metals segment sales increased due to higher sales volume and increased fabrication prices, but these increases were more than offset by lower gold and silver prices and reduced gold and silver bullion sales from refining operations.

In the same comparative period gross profit decreased $3,620,000 (7%) due to the absence of profits resulting from the reduction of precious metals inventory quantities valued under the LIFO method. In 1975 these liquidations resulted in profits before income taxes of $10,685,000. Excluding such profits from the precious metals segment, the profit contribution of that segment increased by $2,924,000 (18%). This increase results from the same factors discussed above in explaining the increase in sales. The increase in the profit contribution of the non-precious metals segment was $2,457,000 (44%); similar to the comparison of 1977 to 1976, the increased volume reduces fixed charges as a percentage of sales, and thus the percentage increase in profit contribution is greater than the increase in sales. Maintenance and repairs increased by $1,160,000 (29%) over the amounts incurred in 1975, a year categorized by a general economic recession which normally leads to postponement, where possible, of major maintenance projects. Additionally the expansion and greater utilization of productive capacity resulted in increased expenditures at generally higher costs than the preceding year.





* Percent of earnings before LIFO profits and extraordinary credit

SG&A expenses increased in 1976 17% over the 1975 level principally as a result of increased payroll costs, including pension costs and other fringe benefits, and SG&A costs of newly acquired subsidiaries. The Company's provision for doubtful accounts was reduced to a more historical provision, $94,000, versus the 1975 provision of $953,000 resulting from the questionable collectibility of specific receivables in the precious metals segment. Taxes, other than taxes on income (which affect both gross profit and SG&A), increased by approximately $1,118,000 (39%) due to: increased payroll taxes resulting from a greater number of employees at higher salaries, coupled with increased tax rates and increased property taxes including adjustments of prior years' assessments.

Interest expense was lower by about 7% reflecting a lower effective interest rate offsetting increased borrowings. Income taxes decreased by 21% in 1976 as compared with 1975 due to the lower pre-tax profits as well as larger investment tax credit resulting in a slightly lower effective rate, 49.3% compared with 50.5%. The result of all this was that net income decreased by approximately 17% in 1976 versus 1975; however, excluding the effect of the 1975 LIFO liquidation, which was not repeated in 1976, net income would have shown an increase of 41% in 1976.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 1977	1976
Sales of products and service revenues	**$381,730,000**	$347,786,000
Cost of products and services	**330,892,000**	301,109,000
Gross profit	**50,838,000**	46,677,000
Selling, general, and administrative expenses	**22,781,000**	20,033,000
Provision for doubtful accounts	**129,000**	94,000
	22,910,000	20,127,000
	27,928,000	26,550,000
Other deductions (income):		
Interest expense	**7,058,000**	5,669,000
Other (net)	**(250,000)**	74,000
	6,808,000	5,743,000
	21,120,000	20,807,000
Provision for taxes on income (Note 3)	**9,972,000**	10,256,000
Net income	**$ 11,148,000**	$ 10,551,000
Net income per share of common stock	**$3.29**	$2.98

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

Assets

	December 31, 1977	December 31, 1976
Current assets:		
Cash (Note 2)	$ 16,066,000	$ 12,841,000
Accounts receivable (less allowance for doubtful: 1977—$1,713,000; 1976—$1,670,000)	51,045,000	44,786,000
Advances to suppliers and customers	1,404,000	11,513,000
Inventories (Note 7)	65,049,000	61,450,000
Deferred income tax benefit	1,078,000	1,133,000
Prepaid expenses and deposits	1,213,000	992,000
Total current assets	135,855,000	132,715,000
Property, plant and equipment (Note 7)	75,261,000	62,772,000
Less accumulated depreciation and amortization	27,944,000	25,376,000
	47,317,000	37,396,000
Intangibles, net of amortization (Note 7)	2,470,000	2,335,000
Deferred charges	252,000	214,000
Other assets	1,265,000	1,155,000
	$187,159,000	$173,815,000

Liabilities and Shareholders' Equity

	1977	1976
Current liabilities:		
Notes payable (Note 2)	$ 46,815,000	$ 55,332,000
Current maturities of long-term liabilities (Note 7)	2,796,000	1,889,000
Accounts payable	10,263,000	5,573,000
Accrued liabilities:		
Smelters' charges and other expenses	10,627,000	8,028,000
United States and foreign taxes on income (Note 3)	1,523,000	1,350,000
Other taxes	1,091,000	1,211,000
Total current liabilities	73,115,000	73,383,000
Long-term liabilities, less current maturities (Note 7)	42,881,000	38,203,000
Total liabilities	115,996,000	111,586,000
Deferred income taxes	1,916,000	1,211,000
Commitments (Note 4)		
Shareholders' equity:		
Common stock—par value $1; 6,000,000 shares authorized; issued: 1977—3,642,858 shares; 1976—3,650,357 shares (Note 5)	3,643,000	3,650,000
Capital surplus	6,282,000	6,326,000
Retained earnings (Note 2)	64,010,000	55,821,000
	73,935,000	65,797,000
Deduct treasury stock: 1977—262,132 shares; 1976—266,562 shares—at cost	4,688,000	4,779,000
Total shareholders' equity	69,247,000	61,018,000
	$187,159,000	$173,815,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years Ended December 31, 1976 and 1977

	Par Value $1 Common Stock	Capital Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Cost	Total Shareholders' Equity
Balance, January 1, 1976	$3,650,000	$6,211,000	$47,877,000	100,962	($1,357,000)	$56,381,000
Net income			10,551,000			10,551,000
Cash dividends on common stock— $.70 per share			(2,487,000)			(2,487,000)
Common stock purchased for treasury				177,000	(3,557,000)	(3,557,000)
Common stock held in treasury re-issued on exercise of stock options		115,000	(113,000)	(11,400)	135,000	137,000
Cash in lieu of fractional shares on stock split			(7,000)			(7,000)
Balance, December 31, 1976	3,650,000	6,326,000	55,821,000	266,562	(4,779,000)	61,018,000
Net income			11,148,000			11,148,000
Cash dividends on common stock— $.85 per share			(2,879,000)			(2,879,000)
Common stock held in treasury re-issued on exercise of stock options		45,000	(82,000)	(4,400)	90,000	53,000
Cancellation of shares contingently issued for business combination	(7,000)	(89,000)	2,000	(30)	1,000	(93,000)
Balance, December 31, 1977	$3,643,000	$6,282,000	$64,010,000	262,132	($4,688,000)	$69,247,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1977	1976
Working capital, January 1	**$59,332,000**	$51,847,000
Sources:		
Operations:		
Net income	**11,148,000**	10,551,000
Items entering into determination of net income which did not use working capital:		
Depreciation and amortization	**4,443,000**	3,331,000
Non-current deferred income taxes	**705,000**	573,000
Other	**66,000**	47,000
Working capital provided from operations	**16,362,000**	14,502,000
Disposal of property, plant, and equipment and other investments (1976)	**144,000**	958,000
Additions to long-term liabilities	**8,021,000**	10,044,000
Common stock options exercised	**53,000**	137,000
Other	**—**	25,000
	24,580,000	25,666,000
Uses:		
Reduction of long-term liabilities	**3,390,000**	1,888,000
Cash dividends paid	**2,879,000**	2,487,000
Property, plant, and equipment:		
Expenditures	**7,232,000**	6,729,000
Acquired through business combinations	**7,039,000**	2,541,000
Purchase of treasury stock	**—**	3,557,000
Intangibles acquired through business combinations	**558,000**	896,000
Additions to deferred charges	**55,000**	83,000
Other	**19,000**	—
	21,172,000	18,181,000
Increase in working capital	**3,408,000**	7,485,000
Working capital, December 31	**$62,740,000**	$59,332,000
Increase (decrease) in components of working capital:		
Cash	**$ 3,225,000**	$ 252,000
Receivables	**6,259,000**	6,901,000
Advances to suppliers and customers	**(10,109,000)**	7,600,000
Inventories	**3,599,000**	6,509,000
Deferred income tax benefit	**(55,000)**	(117,000)
Prepaid expenses and deposits	**221,000**	87,000
Increase in current assets	**3,140,000**	21,232,000
Notes payable and current maturities of long-term liabilities	**(7,610,000)**	18,812,000
Accounts payable	**4,690,000**	(5,642,000)
Accrued liabilities	**2,652,000**	577,000
Increase (decrease) in current liabilities	**(268,000)**	13,747,000
Increase in working capital	**$ 3,408,000**	$ 7,485,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a—Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounts of foreign subsidiaries are translated at appropriate rates of exchange. Translation losses are not material. All significant intercompany items have been eliminated.

Investments in 20%-50% owned companies are carried at equity in their net assets.

b—Stock split
All data in the financial statements have been retroactively adjusted to reflect the three-for-two stock split effected on November 15, 1976, as though it had occurred at the beginning of the periods presented.

c—Inventories
Precious metals inventories are valued principally at cost as computed under the last-in, first-out (LIFO) method, which is lower than market. Other precious metals are stated at replacement value. Non-precious metals inventories are stated at the lower of cost (principally average) or market.

d—Property, plant and equipment, and depreciation
Property, plant and equipment are stated at cost. Depreciation and amortization are provided principally on the straight-line method for financial reporting purposes and on accelerated methods for tax purposes. Generally, buildings are depreciated over 50 years and machinery and equipment over 14 years.

e—Research and development
Research and development costs are charged to operations as incurred. Purchased computer systems and programming costs are generally capitalized and amortized over periods not to exceed five years.

f—Intangibles and amortization
Purchased patents are stated at cost, which is amortized over the respective remaining lives of the patents.

The excess of purchase price over net assets acquired in business combinations is being amortized on the straight-line method over periods ranging from 10 to 40 years.

g—Sales of products and service revenues
A high percentage of the sales price for the Company's precious metal products (see "The Company's Business," page 14) is the value of the precious metals contained. Changes in the unit sales price of such precious metals result in corresponding changes in sales and cost of products sold.

Service revenues, which represent charges to customers for processing refining lots, are recognized in income when the lots are settled with the customer as to precious metal content. Additional costs and smelter charges relating to the settled lots are accrued at that time.

h—Retirement plans
The Company and substantially all of its subsidiaries have noncontributory retirement plans for the benefit of eligible employees. Pension costs are calculated by the Company's consulting actuary to include amortization of prior service cost, generally over a period of 30 years from the inception of the respective plan and from the date of plan amendments. The Company's policy is to fund pension costs accrued.

i—Taxes on income
The Company files a consolidated Federal income tax return with all its domestic wholly owned subsidiaries. The investment credit is recorded as a reduction of the provision for income taxes under the flow-through method.

Timing differences in reporting certain transactions for financial statement purposes (principally provisions for doubtful accounts and depreciation) that are recognized in the tax returns of other periods are appropriately accounted for as deferred taxes.

The Company's policy is to reinvest undistributed earnings of foreign subsidiaries in working capital requirements of those companies. Therefore, as permitted by Opinion Number 23 of the Accounting Principles Board, there is no recognition of domestic income tax expense on such undistributed earnings in the accompanying financial statements. Undistributed earnings of 50% or less owned companies, carried on the equity method, are presently not material.

j—Income per share
Per share amounts are based on the weighted average number of shares outstanding during the years, adjusted retroactively, when applicable, for shares issued in a pooling-of-interests transaction or a stock split. Outstanding stock options are considered common stock equivalents using the treasury stock method and are included in the calculation when their effect would be dilutive; however they had no dilutive effect in 1977 and 1976.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—1977 AND 1976

1—Recent acquisitions

During 1977 the Company acquired three companies for an aggregate purchase price of $9,128,000 cash, and accounted for them as purchases. The results of operations of these companies are included in the consolidated financial statements subsequent to the acquisition date June 30, 1977. The following unaudited pro forma summary combines the consolidated results of operations of the Company with those of Merit Plastics, the only material acquisition, as if Merit had been acquired on January 1 of each of the years.

	1977	1976
Sales and service revenues	$394,030,000	$369,886,000
Net income	$ 11,460,000	$ 11,087,000
Net income per share of common stock	$3.38	$3.13

2—Cash, notes payable, and restrictions

At December 31, 1977, the Company had lines of credit totaling $75,550,000 with 14 commercial banks. Additionally, short-term financing is supported by periodic sales of commercial paper ($10,000,000 outstanding at December 31, 1977), a $1,000,000 note agreement with a foreign bank, and a $25,000,000 revolving credit and term loan agreement with two commercial banks (increased from $20,000,000, effective February 1, 1978).

Under the lines of credit, monies are advanced for periods generally of 90 days at the then prevailing prime rate of interest. The unused lines of credit at December 31, 1977 totaled $39,550,000.

At December 31, 1977 and 1976, the average interest rate for outstanding short-term borrowings was 7.4% and 6.1%, respectively. During 1977, the average month-end short-term borrowing was $63,413,000; the weighted average interest rate was 6.5%, computed on the basis of the number of days the borrowings were outstanding; and the maximum month-end short-term borrowing was $75,600,000. The corresponding amounts for the year ended December 31, 1976 were: average month-end borrowing—$48,757,000; weighted average interest rate—6.8%; and maximum month-end borrowing—$63,500,000.

The Company periodically adjusts its lines of credit to reflect borrowing needs which are primarily related to the market value of its precious metal products and the resulting changes in accounts receivable as precious metals are sold, as well as temporary inventory requirements. In connection with the lines, the Company maintains average compensating balances equal to 15% of the total line. The balances are not legally restricted as to withdrawal and serve as part of the Company's minimum operating cash balances. The average compensating balances related to the lines outstanding at December 31, 1977 totaled approximately $8,430,000 expressed in terms of book cash balances. This amount was approximately $2,700,000 less than the amounts reflected by the banks. The difference is attributable to float and uncollected funds.

The note agreement with a foreign bank expires June 30, 1978, and loans under this agreement bear interest at 1% above the London quoted rate for Eurodollar deposits. A fee of ½ of 1% on the unused commitment is payable during the term of the agreement. At December 31, 1977, there were no outstanding borrowings under this agreement.

The revolving credit portion of the revolving credit and term loan agreement expires on February 1, 1980, with the then outstanding amount convertible into four year term loans repayable in instalments to February 1, 1984. The loans bear interest at a rate which approximates 118% of the prime rate as in effect from time to time. In addition, a fee of ½ of 1% of the unused commitment is payable quarterly during the revolving credit period. At December 31, 1977, there were no outstanding borrowings under a similar $20,000,000 agreement.

Under the most restrictive provisions of the Company's loan agreements, $4,695,000 of consolidated retained earnings are unrestricted as to the declaration of cash dividends and the acquisition of capital stock of the Company at December 31, 1977. The agreements also limit total liabilities and long-term liabilities to amounts ($205,513,000 and $44,090,000, respectively) determined by formula. Additionally, the agreements require the maintenance of minimum

working capital of $55,000,000 and tangible net worth of $53,000,000. At December 31, 1977, the consolidated totals were: total liabilities—$115,996,000; long-term liabilities—$42,881,000; working capital—$62,740,000; and tangible net worth—$66,138,000.

3—Taxes on income
The provision for taxes on income comprised the following (in thousands):

	1977		
	Currently Payable	Deferred	Total
State and local	$1,314	$ 78	$ 1,392
Foreign	912	(104)	808
Federal	6,986	786	7,772
	$9,212	$760	$ 9,972
Investment credit			$ 641

	1976		
	Currently Payable	Deferred	Total
State and local	$1,432	$ 76	$ 1,508
Foreign	477	83	560
Federal	7,657	531	8,188
	$9,566	$ 690	$10,256
Investment credit			$ 341

A reconciliation of the U.S. Federal statutory tax rate, expressed as a percentage of income before income taxes, to the actual tax expense is as follows:

	1977	1976
U.S. Federal statutory tax rate	48.0%	48.0%
State and local income taxes, net of Federal income tax benefit	3.4	3.8
Investment tax credit	(3.0)	(1.7)
Permanent tax deductions in excess of book charges in accounting for acquired subsidiaries	(.8)	(.4)
Benefit from income taxed at capital gains rate	(1.1)	—
Net effect of foreign tax rates	.3	(.7)
Other	.4	.3
Actual tax expense	47.2%	49.3%

4—Commitments
Commitments at December 31, 1977, for additional property, plant and equipment approximated $850,000.

Lease and rental commitments are not significant.

5—Stock options
At December 31, 1977, 85,162 shares of common stock held in the treasury were reserved for issuance under the Company's 1972 Stock Option Plan. Transactions under the Plan and the 1965 Plan, which expired, are summarized below:

	Shares Available for Option	Shares Under Option	
		Shares	Range of Prices
Balance, January 1, 1976	108,000	43,800	$12.00-$16.67
Options exercised	—	(11,400)	12.00- 12.21
Balance, December 31, 1976	108,000	32,400	12.00- 16.67
Options expired	4,000	(4,000)	12.00
Options exercised	—	(4,400)	12.00- 12.21
Balance, December 31, 1977	112,000	24,000	$12.21-$16.67

Of the shares under option, 21,600 were exercisable at December 31, 1977, and the balance will become exercisable during 1978.

6—Segment information
Information regarding the Company's two industry segments—manufacturing and refining of precious metals products, and manufacturing of non-precious metals products—is contained on pages 14 and 15. The information for the years ended December 31, 1977 and 1976 is incorporated herein by reference. Additional information concerning these years is as follows:

	1977	1976
Depreciation and amortization expense:		
Non-precious metals	$ 2,773,000	$1,910,000
Precious metals	1,656,000	1,410,000
Corporate	14,000	11,000
	$ 4,443,000	$3,331,000
Property, plant, and equipment additions:		
Non-precious metals:		
Expenditures	$ 4,244,000	$2,755,000
Acquired through business combinations	7,039,000	2,541,000
	11,283,000	5,296,000
Precious metals	2,988,000	3,974,000
	$14,271,000	$9,270,000

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—1977 AND 1976 (continued)

There are no inter-segment sales, no single customer to whom sales and revenues constituted 10% of the total consolidated sales and revenues, and operations outside of the United States and Canada are not significant.

7—Supplemental information

	1977	1976
a—Inventories:		
Precious metals:		
Fine and fabricated metals in various stages of completion	$ 41,842,000	$41,659,000
Non-precious metals:		
Base metals, factory supplies, and raw materials	12,101,000	10,827,000
Work in process	6,671,000	5,397,000
Finished goods	4,435,000	3,567,000
	$ 65,049,000	$61,450,000
Precious metals stated at LIFO cost	$ 41,489,000	$41,395,000
LIFO inventory— excess of year-end market value over cost	$106,311,000	$89,278,000
December 31 market value per ounce:		
Silver	$ 4.780	$ 4.375
Gold	$ 164.950	$ 134.750
Market value of precious metals held for customers and returnable in commercial bar or fabricated form	$ 22,280,000	$25,995,000
b—Property, plant, and equipment:		
Land	$ 2,093,000	$ 1,764,000
Buildings and improvements	20,360,000	17,098,000
Machinery and equipment	47,987,000	38,886,000
Furniture and fixtures	1,838,000	1,557,000
Automotive	304,000	263,000
Improvements to leased property	608,000	556,000
Construction in progress	2,071,000	2,648,000
	$ 75,261,000	$62,772,000
Depreciation and amortization charged to operations	$ 4,096,000	$ 3,076,000
c—Intangibles (net of amortization):		
Patents and others	$ 1,005,000	$ 930,000
Excess of purchase price over net assets acquired in business combinations	1,465,000	1,405,000
	$ 2,470,000	$ 2,335,000

	1977	1976
d—Long-term liabilities:		
7⅜% note, payable in annual instalments of $667,000 to 1988	$ 7,332,000	$ 7,999,000
9% note, payable in annual instalments of $667,000 to 1991	9,333,000	10,000,000
9⅛% note, payable in annual instalments of $667,000 from 1980 to 1994	10,000,000	10,000,000
9½% note, payable in annual instalments of $667,000 from 1982 to 1996	10,000,000	10,000,000
8½% note, payable in semi-annual instalments of $571,000 to 1984	7,428,000	—
Capitalized lease obligations	574,000	773,000
Other liabilities	1,010,000	1,320,000
	45,677,000	40,092,000
Less instalments due within one year	2,796,000	1,889,000
	$ 42,881,000	$38,203,000
e—Pension information:		
Cost charged to operations	$ 2,229,000	$ 2,029,000
Unfunded prior service cost	$ 7,698,000	$ 7,060,000
f—Undistributed earnings of foreign subsidiaries	$ 3,987,000	$ 3,239,000

8—Selected quarterly data (unaudited)

Summarized financial data for interim periods of 1977 and 1976 (expressed in millions of dollars except per share data) are as follows:

	1977 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Sales	$92.9	$91.3	$94.6	$102.9
Gross profit	12.5	13.2	11.8	13.3
Net income	2.8	3.1	2.4	2.8
Net income per share of common stock	$ .84	$ .91	$ .71	$ .84

	1976 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Sales	$85.3	$92.9	$83.6	$ 86.0
Gross profit	11.0	12.3	10.9	12.5
Net income	2.6	2.9	2.3	2.8
Net income per share of common stock	$ .72	$ .82	$ .65	$ .79

9—Replacement cost data (unaudited)

A 1976 Securities and Exchange Commission ruling requires some companies to report certain information relating to replacement cost of inventories and

productive capacity, and the impact of these costs upon depreciation and cost of sales.

The Company believes that the impact of inflation, except for depreciation, is essentially reflected in the statement of income. A substantial portion of the Company's inventories are valued under the LIFO method and, accordingly, cost of sales for materials consumed approximates current costs. With respect to inventories valued at methods other than LIFO, the Company has for the most part been able to adjust selling prices sufficiently to maintain historic profit margins.

The current cost to replace productive capacity (buildings and equipment) including fully depreciated assets, would be substantially higher than historic cost and, if replaced, would result in higher depreciation expense. However, the Company believes, based on past experience, that such replacement of assets would result in more efficient and therefore lower costs of operation.

The Company's Annual Report to the Securities and Exchange Commission on Form 10-K will contain more detailed information with respect to replacement cost of inventories and productive capacity and the effect on cost of sales and depreciation expense, if such assets were replaced at costs prevailing at December 31, 1977 and 1976. It should be noted, however, that the estimating procedures inherent in the compilation of this data are necessarily subjective and the replacement cost information is not indicative of the Company's plans for (or the future cost of) actual replacement of existing productive capacity.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

HURDMAN AND CRANSTOUN
140 Broadway, New York, N.Y. 10005

To the Directors and Shareholders of Handy & Harman:

We have examined the consolidated balance sheets of Handy & Harman and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of Handy & Harman and subsidiaries consolidated at December 31, 1977 and 1976 and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Hurdman and Cranstoun

Certified Public Accountants
March 1, 1978

DIRECTORS AND OFFICERS

Listed at right are the members of the Board of Directors of the Company and its executive officers, together with their principal occupations or employment and the principal business of the organizations by which they are employed. In the case of each of the executive officers, his principal occupation is his employment with the Company.

Board of Directors

THEODORE W. ATKINSON
Executive Vice President of the Company

PHILIP L. CARRET*†
Chairman of the Pioneer Fund, Inc., a mutual fund; President of Carret & Company, Inc., investment counselors and broker dealers.

RICHARD N. DANIEL
Group Vice President of the Company

WILLIAM L. GREY*†
Partner of law firm of Pennie & Edmonds

WILLIAM H. NEWMAN*†
Faculty member, Graduate School of Business, Columbia University.

GOUVERNEUR M. NICHOLS*†
Director of Company Services, Time, Inc., publishers.

PAUL L. PEYTON*†
Retired; formerly partner of law firm of Breed, Abbott & Morgan.

M. WILBUR TOWNSEND*
Chairman of the Board and President of the Company

EZRA K. ZILKHA*†
Board Chairman, Fidelity International Bank; President, Zilkha & Sons, Inc., investments.

* Member of Executive Committee
† Member of Audit Committee

Officers

M. W. TOWNSEND
Chairman of the Board and President

THEODORE W. ATKINSON
Executive Vice President

JAMES W. BLAIR, JR.
Group Vice President

DONALD A. CORRIGAN
Vice President—Research & Development

RICHARD N. DANIEL
Group Vice President

PHILIP G. DEUCHLER
Vice President—Marketing

WILLIAM H. MARTINSON
Controller

STEPHEN B. MUDD
Treasurer

BRUCE R. TUTTLE, JR.
Secretary and Counsel

Corporate Services

GENERAL COUNSEL
Breed, Abbott & Morgan

AUDITORS
Hurdman and Cranstoun

TRANSFER AGENT & REGISTRAR
Morgan Guaranty Trust Company of N.Y.

STOCK LISTING
New York Stock Exchange
Ticker Symbol: HNH

Mr. Townsend and Mr. Newman

Mr. Carret and Mr. Grey

Mr. Peyton, Mr. Atkinson and Mr. Daniel

Mr. Nichols and Mr. Zilkha

HANDY & HARMAN

Executive and General Offices
850 Third Ave., New York, N.Y. 10022

Plants

Fairfield, Conn.
Attleboro, Mass.
El Monte (Los Angeles), Calif.
Mt. Vernon, N.Y.

Service Branches/Sales Offices

Attleboro, Mass.
Cleveland, Ohio
Dallas, Texas
Elk Grove Village (Chicago), Ill.
El Monte (Los Angeles), Calif.
New York, N.Y.
Southfield (Detroit), Mich.

Subsidiaries/Divisions

American Clad Metals Division
Pawtucket, R.I.

Bigelow Components Corporation
Springfield, N.J.

Consolidated Tube Fabricating Corp.
Waterbury, Conn.

Continental Industries, Inc.
Tulsa, Okla.

Customet, Inc.
Westwood, N.J.

Greenback Industries, Inc.
Greenback, Tenn.

Handy & Harman Metalsmiths Systems Division
Totowa, N.J., and Bensenville, Ill.

Handy & Harman Tube Co., Inc.
Norristown, Pa.

Lucas-Milhaupt, Inc.
Cudahy, Wisc.

Maryland Specialty Wire, Inc.
Cockeysville, Md.

Merit Plastics, Inc.
East Canton, Columbus and Winesburg, Ohio, and Mt. Clemens, Mich.

Micro-Tube Fabricators
Division of Handy & Harman Tube Co., Inc.,
Norristown, Pa.

New Industrial Techniques, Inc.
Coral Springs, Fla.

Pennsylvania Wire Rope Corporation
Williamsport, Pa., and Martinsburg, W. Va.

Rathbone Corporation
Palmer, Mass.

U.S. Auto Radiator Manufacturing Corp.
Highland Park, Mich.

Wire-Form, Inc.
Milldale, Conn.

In Canada
Handy & Harman of Canada, Ltd.
Toronto, Ont., and Montreal, Que.

In England
Rigby-Maryland (Stainless) Ltd.
Heckmondwike, Yorkshire

In Japan
Japan Handy Harman, Ltd.
Koshigaya (Tokyo)
(Owned jointly with Mizuno Precious Metals, Ltd., and C. Itoh & Co., Ltd.)

Products

- Easy-Flo, Sil-Fos and other silver brazing alloys, in all forms
- High temperature brazing alloys
- Aluminum brazing alloy
- Handy Fluxes for silver brazing
- Fine silver and fine gold
- Sterling silver and silver alloys
- Karat golds and gold solders
- Precious and non-precious clad metals
- Gold and silver anodes
- Gold plating salts
- Silver powders, flakes and oxide
- Silver contact alloys and sintered products
- High purity copper and copper alloy powders, ferrite powders
- Dental powders
- Preforms, rings, stampings of ferrous and non-ferrous metals
- Small diameter, precision drawn stainless steel, carbon steel, nickel alloy tubing
- Formed tubing parts
- Miniature components of ferrous and non-ferrous metals for electronic and electrical industries
- Specialized stainless steel products
- Tool steels and antenna rods
- Stainless steel, monel, inconel, nickel alloy wire drawn to fine gauges
- Wire rope and cable, automotive brake assemblies
- Cold drawn profile shapes, pinion rods
- Automated conveyor systems
- Fittings and connecting products for gas distribution and plumbing industries
- Automated brazing equipment
- Ferrous powder metal parts
- Automotive heaters and radiator cores
- Extruded and injection molded plastic products and components
- Control assemblies and components for automotive, appliance and outdoor power equipment

Services

Refining service for all forms of waste materials and scrap parts containing precious metals

HANDY & HARMAN
850 Third Avenue, New York, N.Y. 10022

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